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BALANCE OF PAYMENTS

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European Union Direct Investment Flows

First results for 1998

Ursula Schmidt

Foreign direct investment (FDI) statistics give information on one of the major aspects of globalisation. FDI (for definition see box on page 3) is a supplement or an alternative to cross border trade in goods and services. Eurostat maintains a FDI data base that comprises harmonised and thus comparable data with a geographical breakdown of inward and outward FDI flows, positions and earnings for the European Union, its Member States and its major FDI partners.

The year 1998 has been important in economic terms for the European Union: at its end, the Euro was introduced as the single currency in eleven EU countries, while the economy was affected by the aftermath of the Asian and Russian financial crises. It also saw an increase in mergers and acquisitions of large companies, which continue through to date. But what effect did this have on EU foreign direct investment patterns? Below we give a brief overview by presenting the latest FDI figures (for 1998 and revised data for 1997) for individual EU Member states and for the EU as a whole. The preliminary figures presented here cover equity capital and inter-company loans but exclude reinvested earnings.

Further substantial increase in FDI activities in 1998

After a strong increase in FDI activities between 1996 and 1997, the year 1998 brought further growth to this dynamic aspect of globalisation of international capital flows. EU inward FDI flows more than doubled, reaching ECU 94.3 bn in 1998. The increase was broad-based among EU Member states. In particular the United Kingdom attracted spiralling amounts of foreign investment - after ECU 23 bn in 1997, figures more than doubled to 49 bn in 1998 (see figure 1). Substantial amounts also found their way into the Netherlands (28 bn) and France (25 bn). Exceptional growth rates were seen in Finland and Austria, while Portugal and Italy were the only two EU countries with a decrease in foreign investment inflows.

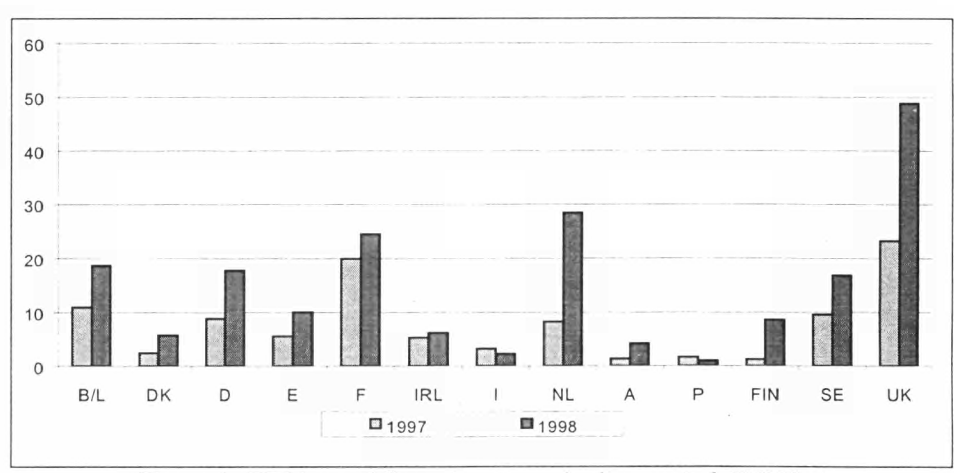


Figure 1: FDI inward flows (equity and other capital, ECU bn)

FDI outflows more than doubled in six EU Member states

Investors from EU countries also stepped up their search for direct investment opportunities abroad. Most countries targeted increasing amounts of investment capital at foreign companies. This was the case in particular for investors from Germany and the United Kingdom (see figure 2). Both countries saw foreign investment outflows soar from around ECU 32-34 bn in

1997 to around ECU 74-79 bn in 1998 respectively. France (34 bn) and the Netherlands (34 bn) also injected considerable sums into foreign enterprises. Furthermore, an exceptionally high FDI growth rate meant that Finland recorded a roughly fivefold increase in its outward bound foreign direct investment in 1998.

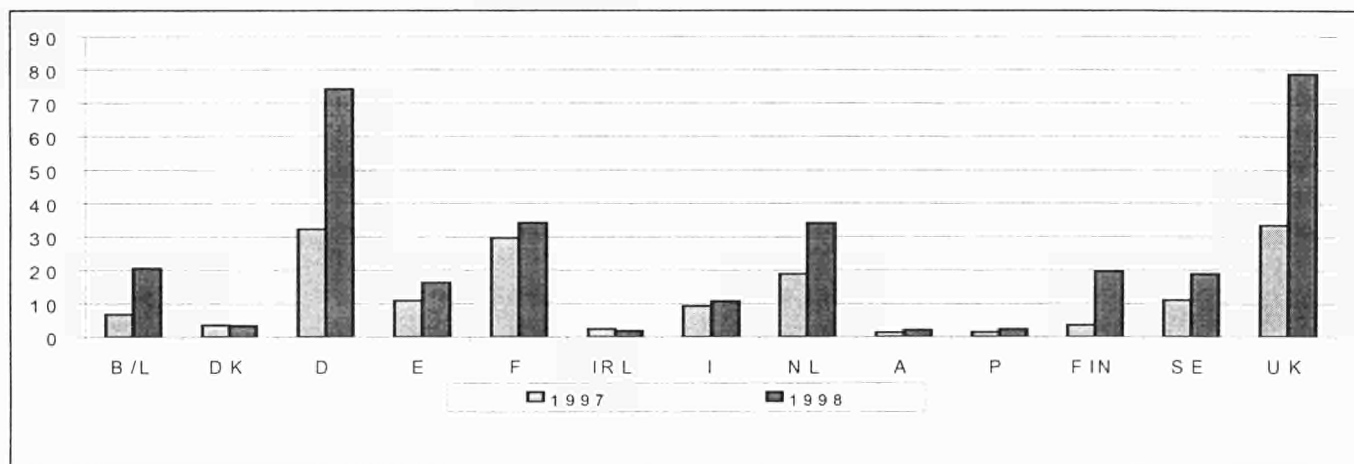


Figure 2: FDI outward flows (equity and other capital, ECU bn)

The corresponding net flows (i.e. outflows minus inflows) thus skyrocketed for Germany, the UK and Finland. One may notice that almost all EU Member states were net contributors of FDI capital, meaning that they invested more than they received. Also, this gap widened in 1998 for the larger part of them. An

exception was Belgium/Luxembourg, which turned net exporter in 1998, while Austria and Denmark recorded more inflows in 1998 than outflows. Interesting is the case of Ireland, which attracted both in 1997 and increasingly in 1998 more FDI than it invested itself abroad.

EU FDI at unprecedented high

The EU as a reporting entity vis-à-vis the rest of the world (i.e. excluding flows between EU Member states) recorded an unprecedented high of FDI activity (see figure 3). While the year 1997 was already marked by exceptional figures, these benchmarks were further lifted in 1998: EU FDI outflows in equity and other capital more than doubled from around ECU 94 bn in 1997 to a commanding 192 bn in 1998. On the other hand, inflows more than doubled from 42 bn to 94 bn, meaning that net capital exports thus increased from around 51 bn to 97 bn in 1998. One of the driving forces behind this development were certainly investment links with the US economy. Here, outward flows funnelled into US companies almost quadrupled to around 112 bn -accounting for more than half of all EU outward flows- while US investors also stacked up there stakes in their European counterparts. Japan and Canada – the other two so-called QUAD economies (besides the EU and the US) – remained comparatively marginal investment targets, despite an increase in 1998.

Thus against the background of important world economic events noted above, foreign direct investment for most EU Member states and for the EU as whole continued to grow at a staggering pace.

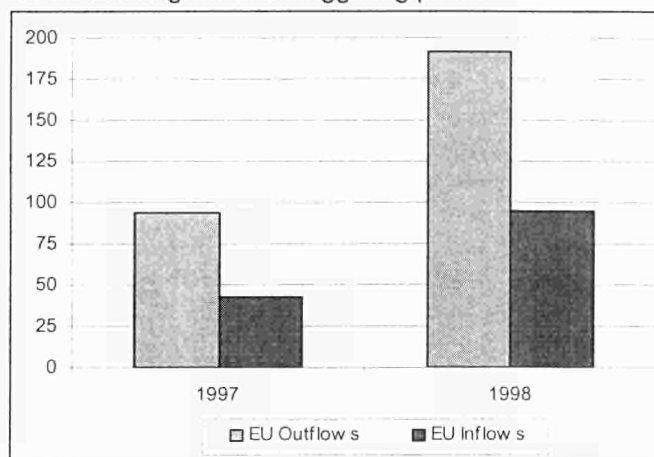


Figure 3: EU FDI flows (equity and other capital, ECU bn)

Outward flows to							Inward flows from						
1998	World	EU	non EU	USA	Japan	Canada	1998	World	EU	non EU	USA	Japan	Canada
EU	:	:	191640	112470	1010	2740	EU	:	:	94300	59400	2420	710
B/L	20652	16712	3940	475	4	1290	B/L	18667	12331	6336	3733	-111	136
DK	3454	3294	160	-667	40	13	DK	5761	1147	4614	3640	0	0
D	74349	22635	51713	39603	131	216	D	17766	15130	2636	2749	48	-95
EL	:	:	:	:	:	:	EL	:	:	:	:	:	:
E	16430	4849	11612	115	-1	625	E	10104	9006	1098	626	-46	2
F	34334	15753	18581	6417	60	212	F	24577	19684	4894	3882	103	290
IRL	1917	941	976	981	:	:	IRL	6247	3190	3058	3251	:	:
I	10787	5667	5120	1777	70	118	I	2332	2125	200	-258	69	7
NL	34243	16598	17645	6821	-64	608	NL	28477	11454	17022	13339	186	66
A	2181	1062	1119	-6	2	19	A	4207	3720	486	55	0	146
P	2394	948	1446	58	0	0	P	1029	485	543	201	4	2
FIN	19707	18479	1228	810	17	0	FIN	8692	8607	85	26	48	0
SE	18887	9540	9347	2163	20	136	SE	16812	12864	3948	683	-91	199
UK	78849	10100	68749	53922	736	-498	UK	48930	-306	49238	27469	2195	-69

Outward flows to							Inward flows from						
1997	World	EU	non EU	USA	Japan	Canada	1997	World	EU	non EU	USA	Japan	Canada
EU	:	:	93690	29050	520	-30	EU	:	:	42200	20620	2410	1870
B/L	6832	5928	904	-774	-147	-663	B/L	10991	7886	3105	-1244	203	666
DK	3715	2459	1243	241	13	0	DK	2472	1857	615	281	13	0
D	32407	10166	22241	9002	-164	319	D	8886	5869	3018	311	581	29
EL	:	:	:	:	:	:	EL	:	:	:	:	:	:
E	11002	3792	7210	909	13	12	E	5638	4720	918	518	160	31
F	29757	15597	14159	7087	46	169	F	19982	14279	5702	2297	232	87
IRL	2542	1417	1125	1211	:	:	IRL	5350	2429	2919	1173	:	:
I	9373	5667	3704	979	253	69	I	3263	2224	1039	89	48	15
NL	18951	8717	10233	-4154	121	-273	NL	8310	7025	1284	1725	109	42
A	1367	750	617	50	2	9	A	1414	1090	323	190	9	3
P	1521	779	742	33	0	1	P	1721	1151	568	405	3	5
FIN	3710	2545	1182	778	12	-12	FIN	1256	1112	144	44	82	-2
SE	11154	1305	9848	3810	-30	145	SE	9627	5092	4535	1935	29	0
UK	33510	13026	20484	9876	399	95	UK	23381	5404	17981	12896	929	975

EU aggregate includes data for all EU Member states, of which only data for Greece was estimated. ':' means entry is not publishable

Table 1: Outward and Inward FDI flows 1997 and 1998, breakdown by major source and destination (equity and other capital, ECU mio)

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

Foreign direct investment (FDI) is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise. Formally defined, a direct investment enterprise is an unincorporated or incorporated enterprise in which a direct investor owns 10% or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

FDI flows and positions:

Through direct investment flows, an investor builds up a foreign direct investment position that features on his balance sheet. This FDI position (sometimes called FDI stock) differs from the accumulated flows because of revaluation (changes in prices or exchange rates, and other adjustments like rescheduling or cancellation of loans, debt forgiveness or debt-equity swaps).

Further information:

➤ Reference publications

Title European Union Direct Investment Yearbook 1998
Analytical Aspects
Catalogue No CA-17-98-596-EN-C Price EUR 20

➤ Databases

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